INDEPENDENT
ENERGY
PRODUCERS

November 21, 2005

California Energy Commission
Attn: Docket Office
1516 Ninth Street, MS-4
Sacramento, CA 95814-5504

RE: Independent Energy Producers Association Comments on the COMMITTEE WORKSHOP RE: 2006 Renewable Investment Plan (November 14, 2005)
Docket Number 00-REN-1194

Dear Integrated Energy Policy Report Committee:

The Independent Energy Producers Association (IEP) appreciates the opportunity to comment on the **2006 Renewable Energy Investment Plan – Staff Draft** (Draft 2006 Investment Plan). The Draft 2006 Investment Plan was presented at the Committee Workshop on November 14, 2005.

I. Overview

The Draft 2006 Investment Plan provides two fundamental recommendations. First, the Draft 2006 Investment Plan recommends that the Committee base its future plan on recent, historical trends. Second, based on this trend analysis, the staff proposes a significant change in the allocation of future Public Goods Charge (PGC) funds compared to the allocation that has occurred historically. The effect of these recommendations, if accepted by the Committee, would be to reallocate a significant portion of PGC funding currently set-aside for "new" renewable resources to the account for "emerging" technologies.

The assumption that the recent past portends what is likely to occur in the future is misplaced. As a result, the proposal by staff to reallocate PGC funds at this time is unwarranted and should not be accepted.

II. Comments on Recommendations in Draft 2006 Investment Plan

A. Recent Trends Are Poor Indicators of Future Needs

The proposal to reallocate funds from the "new" and/or "existing" account to the "emerging" account primarily is based on the assumption that past trends in program allocations provide good signals as to what will incur in the future. For example, the Draft 2006 Investment Plan states, "After weighing the public information on contracts signed to date without the need for supplemental energy payments and the high cost of natural gas, we recommend reducing the amount set aside for above-market Renewable Portfolio Standard [i.e. the "new account]..." (Draft 2006 Renewable Investment Plan, ES-3). IEP believes this perspective is unwarranted at this time.

First, the track record of recent renewable RPS Requests for Offers (RFOs) provides poor intelligence as to what will occur in the future. As noted in the report [Report Table 4 (p. 20)], the RPS RFOs conducted to date are characterized by the following:

- Solar thermal (i.e. dish stirling) represents approximately 50% of the RPS RFO contracted MWs
- Wind represents about 33-44% (depending on the "low" and "high' case scenarios)
- The two technologies that historically have provided the bulk of the renewable energy in California, i.e. geothermal and biomass, represent only 150-255 MWs or approximately 8 percent of the total MWs contracted.

If this trend of RPS RFO results were to continue as presumed by the staff, then Califonia might well be in the following situation:

- Fully 50% of the expected energy needed to ensure RPS compliance would be derived from a technology (solar thermal dish stirling) that has not been proven commercially feasible in the United States; and,
- Compliance with the California RPS by 2010 will be highly dependent on intermittent wind resources with a capacity factor of 30-40%, presuming that solar thermal technology is not able to achieve its deliverability as planned.

While the details of the RPS contracts are not transparent to the public (nor, apparently, the Commissioners), it is highly questionable that the state can achieve its RPS goals (e.g. 20% by 2010 or 33% by 2020) if this pattern of procurement is maintained in the future. Something is likely to change, and the change that is most likely to occur is one that has the load-serving entities contracting with more costly resources. Unlike the staff's trend analysis, this trend analysis suggests a continuing need for ample PGC funds in the future.

Second, IEP believes that past RPS RFOs have taken the "low hanging fruit." Acquiring renewable energy, even in the same proportions as has occurred to date, likely will result in the future in more expensive resources selected from the resource mix due

to technology type/needs, geographic location, etc. This too will apply upward pressure on limited SEP funding.

Third, natural gas price prices today may be poor measures of future natural gas prices. Already, some downward pressure is occurring in the marketplace. If sustained, then the Market Price Referent (MPR) would be expected to lower, and this will have concomitant upward pressure on SEP funds all things being equal. Reliance on the CEC gas price forecast is useful, but not as the rationale for shifting funds from an account where it may be needed (e.g. the "new" account) to another account that, by definition, will result in fewer delivered MWs to the grid (e.g. the emerging account).

B. Reallocation Proposals Are More Significant That Suggested In the Staff's Presentation

The staff proposal suggests that the changes proposed are relatively modest in terms of percentage (%) adjustments from funding levels today. IEP does not agree with the conclusion drawn by staff. The staff analysis fails to consider the relative shift of funding within each category.

> ***The staff proposal to shift funding from the "new" account to the "emerging" account actually results in a reduction of funding for the "new" account by fully 26% (not 13.5% as suggested in Table ES-1).***
>
> ***The staff proposal to increase funding for the "emerging account" results in an increase in funding for the "emerging" account by 174% (not 30.5% as suggested in Table ES-1).***

Table A below illustrates the effects of the proposed changes. In Table A, columns 1-4 are based on Table ES-1 in the Draft 2006 Investment Plan whereas column 5 is calculated by IEP. Column A the relative impact of the proposed funding shifts within each category.

Table A
Impact of Proposed Re-Allocations

	SB 1038 2002-2007 Reallocation of Customer Credit	Proposed 2007-2012	Change from SB 1038 (% of today)	IEP COMPARISION: % Change $s from SB 1038 [
	[A]	*[B]*	*[B-A]*	*[(B-A)/A]*
New Renewables	51.5%	38%	-13.5%	**-26%**
Emerging Renewables	17.5%	48%	+30.5%	**+174%**
Consumer Information	1%	4%	+3%	**+300%**
Customer Credit	10%	0%	-10%	
Existing Renewables	20%	10%	-10%	**-50%**

The calculations presented in Column 5 reveal that the relative impact of the proposed changes are quite significant for the technologies impacted.

C. Reallocation Proposals Undermine Attainment of RPS Goals

The staff proposal results in a shift of approximately $66 million annually from the "new" account to the "emerging" account. This potentially has a significant impact on the probability of meeting the 20% by 2010 RPS goal due to the fact that the costs for delivered energy from an emerging technology (such as solar PV) are significantly higher than the costs for energy delivered from either the "new" or "existing" account.

Table 2, "Cost-Effectiveness Assessment of Renewable Investment,' provides a breakdown of the cost per MW associated achieved to date by the various renewables accounts. The inputs to the calculations presented in the Table are derived primarily from page 7 of the Draft 2006 Investment Plan

Table 2
Cost-Effectiveness Assessment
Of
Renewable Investment

	Existing Program	**New Program**	**Emerging Program**
Renewable MWs Supported	4,400 MWs	1,265 MWs	87 MWs
Cost of Support	$209 million	$189 million	$210 million
Cost Per MW Supported	$47,500/MW	$149,407/MW	$2,413,793/MW

Given that the "supported" cost on a MW basis for the emerging technologies is at least 16 times higher than that for the "new" account, the proposed funding shift should be viewed as creating further barriers to attainment of the state's RPS goals. The only way to achieve this goal is to ensure that sufficient funding is available for new (and existing) projects to sustain and significantly expand the production of energy from these renewable projects.

D. Current Approach To Reallocation Should Not Be Altered

Historically, the Commission has employed the flexibility granted it by the legislature in a prudent and efficient manner. Specifically, once sufficient empirical evidence exists, the Commission considers and as appropriate reallocates funds to their greatest purpose. IEP does not believe that the empirical evidence exists today to warrant designing a 2006 Investment Plan based on the reallocations proposed by staff.

We recommend retaining the existing allocations until additional, empirical evidence exists that the proposed reallocations will not undermine attainment of the RPS goals of 20% by 2010 (or, alternatively 33% by 2020). To do otherwise will be to make California's renewable/RPS commitment a hollow policy.

E. Other Comments

As a general matter, IEP finds the existing California RPS too complex. This complexity results in needless delay in RPS procurement. The staff's proposal to move to a reverse auction has merit, but that change should be considered in the context of a broader review of the California RPS with an objective of achieving greater simplification and transparency.

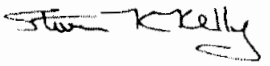
We are particularly concerned that the lack of transparency in the implementation of the California RPS may make it difficult for the Commission to timely and effectively

award SEP payments to winning bidders. This outcome must be avoided and the reverse auction in particular may help in that regard.

V. Conclusion

IEP appreciates the opportunity to provide these comments. We look forward to working with the Committee and staff to develop a useful 2006 Renewable Investment Plan to guide California energy policy into the future.

Respectfully submitted



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November 21, 2005

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